# CENTRAL OKANAGAN REGIONAL HOSPITAL DISTRICT

## AUDIT PLANNING REPORT TO THE BOARD OF DIRECTORS

**December 18, 2019**

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# EXECUTIVE SUMMARY

## Your BDO Audit Team

Markus Schrott, BBA, CPA, CA will be the lead on the engagement team, supported by experts as deemed necessary. Please refer to page 4 for contact information should you have any questions or concerns regarding the financial statement audit.

## Significant Audit Risks

Our audit is focused on risks specific to your business and key accounts. Specifically, we have identified the following areas on which to focus:

- Management override of internal controls

## Engagement Objectives

Our overall responsibility is to form and express an opinion on the financial statements. The performance of this audit does not relieve management or those charged with governance of their responsibilities.

# YOUR DEDICATED BDO AUDIT TEAM

In order to ensure effective communication between the Board of Directors and BDO Canada LLP, the contact details of the engagement team are outlined below. We attempt to provide continuity of service to our clients to the greatest extent possible in accordance with mandated partner rotation rules. When rotation is required for key members of the engagement team, we will discuss this matter with the Board of Directors and determine the appropriate new individual(s) to be assigned to the engagement based on particular experience, expertise and engagement needs.

| NAME | ROLE | PHONE NUMBER | EMAIL |
|---|---|---|---|
| Markus Schrott, CPA, CA | Engagement Partner | 250.545.2136 ext: 1882 | mschrott@bdo.ca |
| Brennen Giroux, CPA, CA | Assurance Senior Manager | 250.763.6700 ext: 8179 | bgiroux@bdo.ca |
| Jessica Treat | Assurance Auditor Senior | 250.763.6700 ext: 8187 | jtreat@bdo.ca |
| Alexis Semeschuk | Assurance Auditor Intermediate | 250.763.6700 ext :8156 | asemeschuk@bdo.ca |

# SIGNIFICANT AUDIT RISKS AND PLANNED RESPONSES

Based on our knowledge of the Entity's business, our past experience, and knowledge gained from management and the Board of Directors, we have identified the following significant risks; those risks of material misstatement that, in our judgment, require special audit consideration.

Significant risks arise mainly because of the complexity of the accounting rules, the extent of estimation and judgment involved in the valuation of these financial statement areas, and the existence of new accounting pronouncements that affect them. We request your input on the following significant risks and whether there are any other areas of concern that the Board of Directors has identified.

| AREAS OF FOCUS | RISKS NOTED | AUDIT APPROACH |
|---|---|---|
| **Management Override of Internal Controls**<br><br>***(Mandatory audit consideration)*** | Per CAS 240.32, irrespective of our assessment of the risk of management override of controls, audit procedures must be performed to address the risk. | Review of transactions recorded in various ledgers for unusual or non-recurring adjustments not addressed by other audit procedures. |

# MATERIALITY

Misstatements, including omitted financial statement disclosures, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the non-consolidated financial statements.

Judgments about materiality are made in light of surrounding circumstances and include an assessment of both quantitative and qualitative factors and can be affected by the size or nature of a misstatement, or a combination of both.

Preliminary materiality was determined to be $510,000, based on 3% of a 3 year average of revenues.

Our materiality calculation is based on the Entity’s preliminary results. In the event that actual results vary significantly from those used to calculate preliminary materiality, we will communicate these changes to the Board of Directors as part of our year end communication.
We will communicate all corrected and uncorrected misstatements identified during our audit to the Board of Directors, other than those which we determine to be “clearly trivial”. Misstatements are considered to be clearly trivial for purposes of the audit when they are inconsequential both individually and in aggregate.

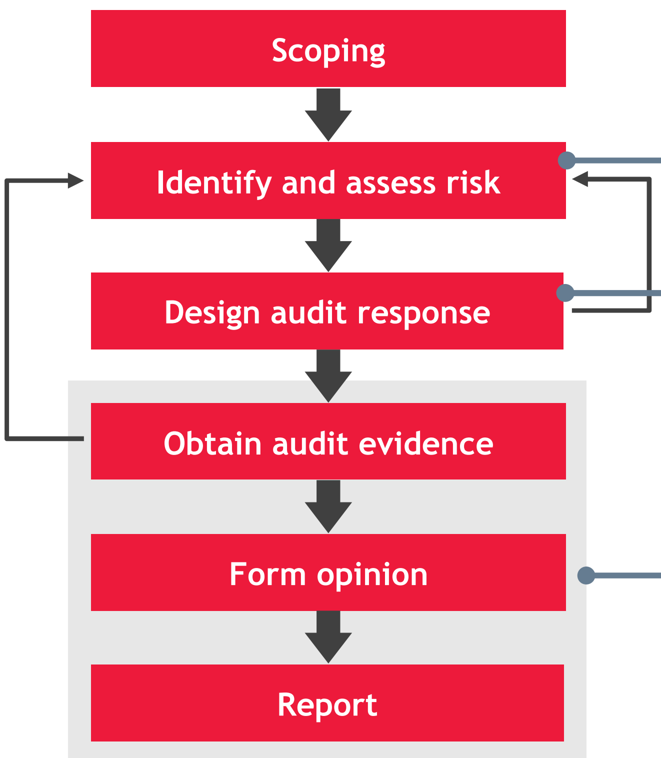
We encourage management to correct any misstatements identified throughout the audit process.

# APPENDICES

# APPENDIX A: BDO AUDIT STRATEGY

Our overall audit strategy involves extensive partner and manager involvement in all aspects of the planning and execution of the audit and is based on our overall understanding of the Entity.

We will perform a risk-based audit which allows us to focus our audit effort on higher risk areas and other areas of concern for management and the Board of Directors.




**Identify and Assess Risk:**
To assess risk accurately, we need to gain a detailed understanding of the Entity's business and the environment it operates in. As well, we obtain an understanding of the system of internal control in place in order to consider the adequacy of these controls as a basis for the preparation of the non-consolidated financial statements, to determine whether adequate accounting records have been maintained and to assess the adequacy of these controls and records as a basis upon which to design and undertake our audit testing.

**Design Audit Response:**

Based on our risk assessment, we design an appropriate audit strategy to obtain sufficient assurance to enable us to report on the non-consolidated financial statements.

We choose audit procedures that we believe are the most effective and efficient to reduce audit risk to an acceptable low level. The procedures are a combination of testing the operating effectiveness of internal controls, substantive analytical procedures and other tests of detailed transactions.

**Obtain Audit Evidence / Form Opinion / Report:**

Having planned our audit, we will perform audit procedures, maintaining an appropriate degree of professional skepticism, in order to collect evidence to conclude whether or not the non-consolidated financial statements are presented fairly, in all material respects, in accordance with Canadian public sector accounting standards.

# APPENDIX B: COMMUNICATION REQUIREMENTS

| Required Communication | Audit Planning Presentation | Audit Results Presentation | Communication Completed |
|---|---|---|---|
| 1. Our responsibilities under Canadian GAAS | ✓ | | Y |
| 2. Our audit strategy and audit scope | ✓ | | Y |
| 3. Fraud risk factors | ✓ | | Y |
| 4. Going concern matters | | ✓ | N |
| 5. Significant estimates or judgments | | ✓ | N |
| 6. Audit adjustments | | ✓ | N |
| 7. Unadjusted misstatements | | ✓ | N |
| 8. Omitted disclosures | | ✓ | N |
| 9. Disagreements with Management | | ✓ | N |
| 10. Consultations with other accountants or experts | | ✓ | N |
| 11. Major issues discussed with management in regards to auditor retention | | ✓ | N |
| 12. Significant difficulties encountered during the audit | | ✓ | N |
| 13. Significant deficiencies in internal control | | ✓ | N |
| 14. Material written communication between BDO and Management | | ✓ | N |
| 15. Any relationships which may affect our independence | ✓ | | Y |
| 16. Any illegal acts identified during the audit | | ✓ | N |
| 17. Any fraud or possible fraudulent acts identified during the audit | | ✓ | N |
| 18. Significant transactions with related parties not consistent with ordinary business | | ✓ | N |
| 19. Non-compliance with laws or regulations identified during the audit | | ✓ | N |
| 20. Limitations of scope over our audit, if any | | ✓ | N |
| 21. Written representations made by Management | | ✓ | N |
| 22. Any modifications to our opinion, if required | | ✓ | N |

# APPENDIX C: INDEPENDENCE LETTER

December 18, 2019

Members of the Board of Directors
Central Okanagan Regional Hospital District

Dear Board of Directors Members:

We have been engaged to audit the non-consolidated financial statements of Central Okanagan Regional Hospital District (the "Entity") for the year ended December 31, 2019.

Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Entity and our Firm that, in our professional judgment, may reasonably be thought to bear on our independence.

In determining which relationships to report, we have considered the applicable legislation and relevant rules and related interpretations prescribed by the appropriate provincial institute/order, covering such matters as:

- Holding a financial interest, either directly or indirectly in a client;
- Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- Economic dependence on a client; and
- Provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 9, 2019, the date of our last letter.

We are not aware of any relationships between the Entity and our Firm that, in our professional judgment, may

We hereby confirm that we are independent with respect to the Entity within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia as of December 18, 2019.

This letter is intended solely for the use of the Board of Directors, management and others within the Entity and should not be used for any other purposes.

Yours truly,

*BDO Canada LLP*

Chartered Professional Accountants

# APPENDIX D: RESPONSIBILITIES

It is important for the Board of Directors to understand the responsibilities that rest with the Entity and its management, those that rest with the external auditor, and the responsibilities of those charged with governance. BDO's responsibilities are outlined below and within the annual engagement letter attached as Appendix B to this letter. The oversight and financial reporting responsibilities of management are also summarized below.

## AUDITOR'S ENGAGEMENT OBJECTIVES

Our overall objective is to express an opinion as to whether the non-consolidated financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Entity in accordance with Canadian public sector accounting standards.

### Year-End Audit Work

- Work with management towards the timely issuance of non-consolidated financial statements.
- Provide timely and constructive management letters. This will include deficiencies in internal control identified during our audit.
- Present significant findings to the Board of Directors including key audit and accounting issues, any significant deficiencies in internal control and any other significant matters arising from our work.

### Other Information

- Read the other information included in the Entity's Annual Report to identify material inconsistencies, if any, with the audited non-consolidated financial statements.

### Year-Round Work

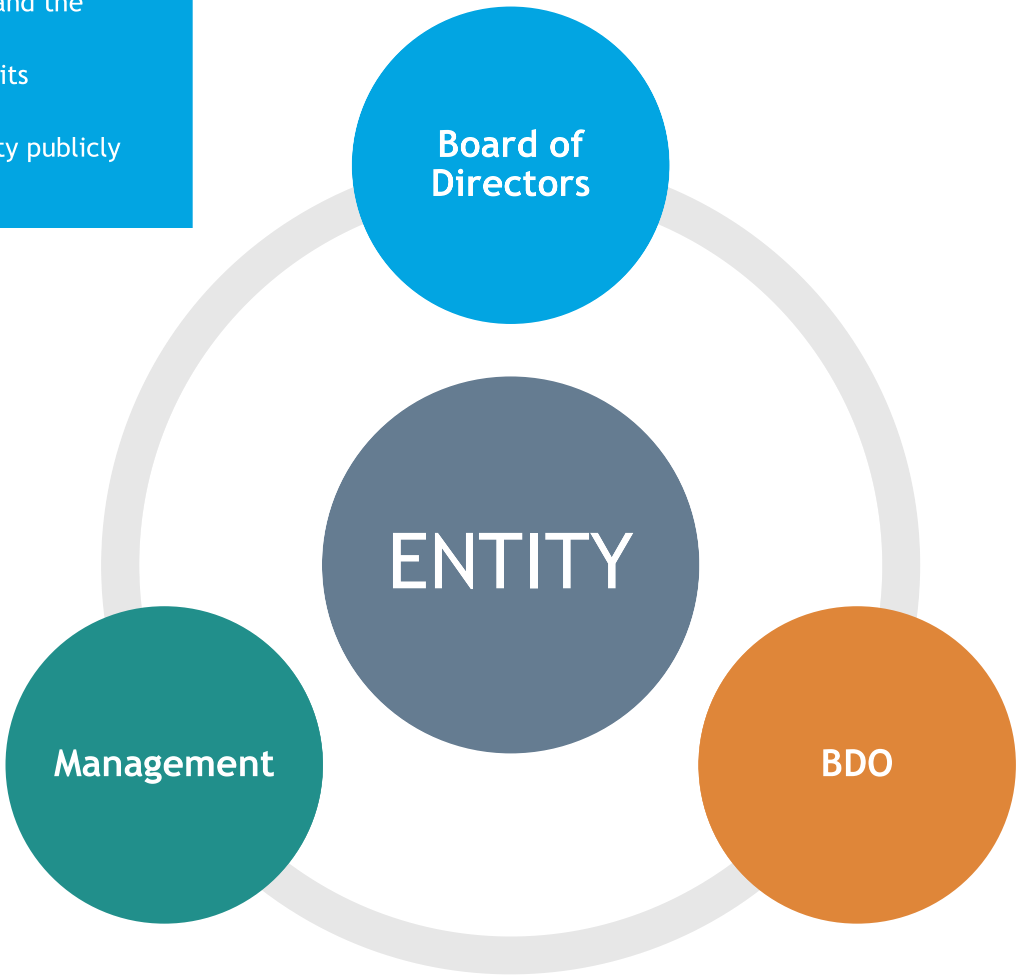
- Consult regarding accounting, income tax and reporting matters as requested throughout the year.

## RESPONSIBILITIES OF THOSE CHARGED WITH GOVERNANCE

- Oversee the work of the external auditor engaged for the purpose of issuing an independent auditor's report.
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting matters.
- Pre-approve all non-audit services to be provided to the Entity or its subsidiaries by the external auditor.
- Review the non-consolidated financial statements before the Entity publicly discloses this information.

## MANAGEMENT RESPONSIBILITIES

- Maintain adequate accounting records and maintain an appropriate system of internal control for the Entity.
- Select and consistently apply appropriate accounting policies.
- Prepare the annual non-consolidated financial statements in accordance with Canadian public sector accounting standards.
- Safeguard the Entity's assets and take reasonable steps for the prevention and detection of fraud and other irregularities.
- Make available to us, as and when required, all of the Entity's accounting records and related financial information.



# APPENDIX E: BDO RESOURCES

BDO is a leading provider of professional services to clients of all sizes in virtually all business sectors. Our team delivers a comprehensive range of assurance, accounting, tax, and advisory services, complemented by a deep industry knowledge gained from nearly 100 years of working within local communities. As part of the global BDO network, we are able to provide seamless and consistent cross-border services to clients with global needs. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

Outlined below is a summary of certain BDO resources which may be of interest to the Board of Directors.

## TAX BULLETINS, ALERTS AND NEWSLETTERS

BDO Canada’s national tax department issues a number of bulletins, alerts and newsletters relating to corporate federal, personal, commodity, transfer pricing and international tax matters.

For additional information on tax matters and links to archived tax publications, please refer to the following link: Tax Library | BDO Canada

Government Entities operating in Canada are impacted by commodity taxes in some way or another. These include GST/HST, QST, PST, various employer taxes, and unless managed properly, can have a significant impact on your organization’s bottom line. The rules for Government Entities can be especially confusing, and as a result many organizations end up paying more for indirect tax then they need to.

Government Entities must keep on top of changes to ensure they are taking advantage of the maximum refund opportunities. At BDO, we have helped a number of organizations of all sizes with refund opportunities, which can reduce costs for the organization and improve overall financial health.

For more information, please visit the following link: https://www.bdo.ca/en-ca/services/tax/commodity-tax-services/overview/

## SMART CITY ARCHITECTURE: A BLUEPRINT FOR BUILDING URBAN INFRASTRUCTURE

Transforming a city into a smart city can bring long-term benefits and opportunities for sustainability and innovation for both citizens and businesses. However when undertaking an integration initiative of this magnitude many issues can surface. A well-established plan coupled with active stakeholder engagement can clear the path to realizing this new urban infrastructure vision.

For more information, please visit the following link: https://www.bdo.ca/en-ca/insights/industries/public-sector/smart-cities-blueprint-urban-infrastructure/

# APPENDIX F: CHANGES IN ACCOUNTING STANDARDS WITH POTENTIAL TO AFFECT CENTRAL OKANAGAN REGIONAL HOSPITAL DISTRICT

*The following summarizes the status of new standards and the changes to existing standards as of the fall of 2019. The Appendix also reviews Exposure Drafts, Statements of Principles, Projects and Post Implementation Reviews that provide information on the future direction of CPA Public Sector Accounting Handbook.*

## NEW STANDARDS – PSAS

***Section PS 3430, Restructuring Transactions***

This Section addresses a problem area for public sector accounting. In the past there was no Canadian standard that addressed acquisition of services and service areas, therefore, accountants looked to the US and international standards for guidance.

This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction. A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities, that does not involve an exchange of consideration based primarily on the fair value of the individual assets and liabilities transferred.

- The net effect of the restructuring transaction should be recognized as a revenue or expense by the entities involved.
- A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the restructuring date.
- The financial position and results of operations prior to the restructuring date are not restated.
- A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.

This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. For entities with a December year, end this means that 2019 is the first year that the standard must be followed.

## NEW STANDARDS – PSAS (NOT YET EFFECTIVE)

***Section PS 2601, Foreign Currency Translation***

This Section revises and replaces *PS 2600, Foreign Currency Translation*. The following changes have been made to the Section:

- The definition of currency risk is amended to conform to the definition in *PS 3450, Financial Instruments*;

- The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed;
- At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date;
- The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued;
- Until the period of settlement, exchange gains and losses are recognized in the statement of re-measurement gains and losses rather than the statement of operations; and
- Hedge accounting and the presentation of items as synthetic instruments are removed.

The new requirements are to be applied at the same time as *PS 3450, Financial Instruments*, and are effective for fiscal years beginning on or after April 1, 2021. For entities with a December year end this means 2022 is the first year that the standard must be followed. Earlier adoption is permitted.

***Section PS 3041, Portfolio Investments***

This Section revises and replaces Section *PS 3040, **Portfolio Investments***. The following changes have been made:

- The scope is expanded to include interests in pooled investment funds;
- Definitions are conformed to those in *PS 3450, Financial Instruments*;
- The requirement to apply the cost method is removed, as the recognition and measurement requirements within Section PS 3450 apply, other than to the initial recognition of an investment with significant concessionary terms; and
- Other terms and requirements are conformed to Section PS 3450, including use of the effective interest method.

The new requirements are effective for fiscal years beginning on or after April 1, 2021. For the Regional District, this means that the year ending December 31, 2022 is the first year that the standard must be followed. Earlier adoption is permitted.

***Section PS 3280, Asset Retirement Obligations***

This new Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new Section are:

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.

- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
- A present value technique is often the best method with which to estimate the liability.
- As a consequence of the issuance of Section PS 3280:
  - editorial changes have been made to other standards; and
  - SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270, has been withdrawn.

This Section applies to fiscal years beginning on or after April 1, 2021 (2022 fiscal year for organizations with December year ends). Earlier adoption is permitted.

Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2021, unless a public sector entity elects earlier adoption.

***Section PS 3400 Revenue***

This section is related to revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue.

The Public Sector Accounting Handbook has two Sections that address two major sources of government revenues, government transfers and tax revenue. Revenues are defined in Section PS 1000, Financial Statement Concepts. Recognition and disclosure of revenues are described in general terms in Section PS 1201, Financial Statement Presentation.

This section addresses recognition, measurement and presentation of revenues that are common in the public sector. It is less complex than the comparable new IFRS standard, although generally consistent in philosophy.

This new Section will be effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

***Section PS 3450, Financial Instruments***

This new Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

The main features of the new Section are:

- Items within the scope of the Section are assigned to one of two measurement categories: fair value, or cost or amortized cost.

- Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value.
- Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market.
- Other financial assets and financial liabilities are generally measured at cost or amortized cost.
- Until an item is derecognized, gains and losses arising due to fair value re-measurement are reported in the statement of re-measurement gains and losses.
- Budget-to-actual comparisons are not required within the statement of re-measurement gains and losses.
- When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category.
- New requirements clarify when financial liabilities are derecognized.
- The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
- New disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

The new requirements are to be applied at the same time as *PS 2601, Foreign Currency Translation* and are effective for fiscal years beginning on or after April 1, 2021. For entities with a December year end this means 2022 is the first year that the standard must be followed. Earlier adoption is permitted. This Standard should be adopted with prospective application except for an accounting policy related to embedded derivatives within contracts, which can be applied retroactively or prospectively.